

## Message Text

CONFIDENTIAL

PAGE 01 PEKING 02789 01 OF 04 300347Z  
ACTION EA-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07  
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15  
USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00  
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 STR-05 CEA-01  
AGRE-00 FEA-01 INT-05 /098 W  
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R 290851Z NOV 77  
FM USLO PEKING  
TO SECSTATE WASHDC 9268  
INFO AMCONSUL HONG KONG  
AMEMBASSY TOKYO  
AMEMBASSY SINGAPORE POUCH  
AMEMBASSY TAIPEI POUCH  
ZEN CINCPAC HONO HI POUCH

C O N F I D E N T I A L SECTION 1 OF 4 PEKING 2789

CINCPAC FOR POLAD

E.O. 11652: GDS  
TAGS: ETRD, EEWT, CH

SUBJ: PRC FOREIGN TRADE: AN ASSESSMENT OF RECENT POLICIES,  
THEIR IMPLEMENTATION AND PROSPECTS FOR THE FUTURE

REF: (A) PEKING 2635, (B) PEKING 2788

1. FOR SUMMARY OF THIS MESSAGE SEE REF B.

2. IN PEKING 2635 WE ANALYZED CHINA'S ECONOMIC  
PERFORMANCE DURING THE PAST YEAA AND CONCLUDED  
WITH CAUTIOUS OPTIMISM ABOUT PROSPECTS FOR  
CONTINUED GRADUAL RESOLUTION OF CHINA'S  
STRUCTURAL PROBLEMS AND SPECIFIC BOTTLENECKS  
IN THE ECONOMY. IN THIS MESSAGE, WE EXAMINE  
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PAGE 02 PEKING 02789 01 OF 04 300347Z

THE FOREIGN TRADE POLICIES OF THE HUA GOVERNMENT.  
THESE POLICIES -- MANY OF WHICH WERE ASSOCIATED  
WITH CHOU EN-LAI AND THE OBJECT OF SEVERE  
POLITICAL ATTTACK IN 1976 -- ARE DESIGNED TO  
SUPPORT CHINA'S ECONOMIC DEVELOPMENT AND TO  
HASTEN THE MODERNIZATION OF CHINA'S INDUSTRY,  
AGRICULTURE, SCIENCE AND TECHNOLOGY, AND NATIONAL



DEFENSE.

3. THE OCTOBER 1977 "RED FLAG" ARTICLE ON FOREIGN TRADE BY LI CHIANG, MINISTER OF FOREIGN TRADE, IS THE HUA GOVERNMENT'S MOST COMPREHENSIVE SUMMATION AND DISCUSSION OF THE TRADE POLICIES TO BE FOLLOWED IN COMING YEARS. LI MAKES CLEAR THAT TRADE IS TO BE CARRIED ON TO MEET THE NEEDS OF CHINA'S DOMESTIC ECONOMY. HE EMPHASIZES MAO'S STATEMENT THAT TRADE WILL "FACILITATE THE DEVELOPMENT OF PRODUCTION AND A FLOURISHING ECONOMY", AND ARGUES THAT SUCCESSFUL TRADE WILL "RAISE THE LEVEL OF PRODUCTION TECHNIQUES, PROMOTE THE GROWTH OF THE COLLECTIVE ECONOMY, INCREASE THE INCOMES OF THE COMMUNES, BRIGADES AND THE MASSES, INCREASE THE ACCUMULATION OF CAPITAL FOR THE MECHANIZATION OF AGRICULTURE, AND PROMOTE A FLOURISHING DOMESTIC MARKET".

4. IN CARRYING OUT FOREIGN TRADE, LI CHIANG EMPHASIZES THAT CHINA WILL:  
--REMAIN BASICALLY SELF-RELIANT: "WE MUST FOREVER ADHERE TO THE POLICY OF MAINTAINING INDEPENDENCE, KEEPING THE INITIATIVE IN OUR OWN HANDS, AND ACHIEVING REGENERATION THROUGH SELF-RELIANCE."  
CONFIDENTIAL

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PAGE 03 PEKING 02789 01 OF 04 300347Z

--SELECTIVELY USE IMPORTS OF ADVANCED DESIGN AND TECHNOLOGY TO SPEED THE DEVELOPMENT OF CRITICAL SECTORS OF THE ECONOMY: "IF WE REFUSE TO LEARN THE ADVANCED EXPERIENCES AND ADVANCED TECHNIQUES OF OTHER COUNTRIES AND INSTEAD START EVERYTHING FROM SCRATCH, THAT IS BOUND TO AFFECT THE PACE OF DEVELOPMENT OF SOME OF OUR INDUSTRIAL TECHNOLOGIES".

--MOUNT AN EFFORT TO EXPAND THE SUPPLY OF EXPORT COMMODITIES: "PRODUCTION IS THE FOUNDATION OF FOREIGN TRADE. ONLY WITH THE DEVELOPMENT AND PRODUCTION AND AN ABUNDANCE OF COMMODITIES CAN WE HAVE AN ADEQUATE SUPPLY OF GOODS FOR EXPORT AND BROADEN OUR EXCHANGES WITH FOREIGN COUNTRIES".

--BE MORE FLEXIBLE IN ITS APPROACH TO THE MARKET AND TRADE PRACTICES: "WE MUST BE GOOD AT USING DIFFERENT PRODUCTS, TIMES, AND MARKETS IN IMPORTING AND EXPORTING AND FLEXIBILITY USE ALL TRADE METHODS UNDER VARIOUS COMPLICATED CONDITIONS".

--USE FOREIGN TRADE IN SUPPORT OF FOREIGN



POLICY GOALS: TRADE WILL "ENHANCE FRIENDSHIP WITH THE PEOPLES OF VARIOUS COUNTRIES AND PROMOTE THE STRUGGLE AGAINST IMPERIALISM, COLONIALISM AND HEGEMONISM".

5. LEST THERE BE ANY DOUBT AS TO THE CONTRIBUTION FOREIGN TRADE IS TO MAKE TO THE ECONOMY, LI DECLARES: "ACTIVELY DEVELOPING SOCIALIST FOREIGN TRADE IS AS JUSTIFIED, MERITORIOUS AND GLORIOUS AS PRACTICING SOCIALISM IN A BIG WAY ON OTHER FRONTS".

IMPLEMENTATION OF TRADE POLICIES -- IMPORTS

CONFIDENTIAL

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PAGE 04 PEKING 02789 01 OF 04 300347Z

6. THE FOREIGN TRADE CORPORATIONS HAVE MOVED IN RECENT MONTHS TO IMPLEMENT THESE NEWLY ENUNCIATED TRADE POLICIES. ON THE IMPORT SIDE, WE HAVE SEEN THIS YEAR LARGE NUMBERS OF BUSINESSMEN FROM WEST EUROPE, JAPAN AND THE US INVITED TO PEKING FOR TECHNICAL PRESENTATIONS AND NEGOTIATIONS AND TO MEET NOT ONLY WITH FOREIGN TRADE CORPORATION OFFICIALS BUT ALSO WITH CHINESE END-USERS. THE PRC CORPORATIONS ARE SHOWING EAGERNESS TO DISCUSS IN DETAIL WITH VISITING GROUPS THE TECHNOLOGY AVAILABLE AND THE ABILITY OF FOREIGN EQUIPMENT AND MACHINERY TO SATISFY CHINA'S REQUIREMENTS. DISCUSSIONS ARE FREQUENTLY DETAILED AND EXHAUSTIVE, WITH THE CHINESE INTERESTED NOT ONLY IN THE CAPABILITIES OF THE PRODUCTS THEMSELVES, BUT IN THE DESIGN AND KNOW-HOW WHICH GOES INTO THEM. WHILE THE PRC HAS BEEN INTERESTED IN FOREIGN TECHNOLOGY IN THE PAST, AND IN PARTICULAR IN THE FIRST HALF OF THE 1970'S, THE PRESENT SCALE OF ACTIVITY, PARTICULARLY THE NUMBER OF VISITING BUSINESSMEN, IS PERHAPS GREATER THAN DURING ANY PREVIOUS PERIOD.

7. THE FOREIGN TRADE CORPORATIONS HAVE EXPRESSED PRIORITY INTEREST IN EQUIPMENT AND MACHINERY IMPORTS FOR SEVERAL SECTORS. THE MODERNIZATION OF THE IRON AND STEEL INDUSTRY AND THE TRANSPORT SECTOR ARE PARTICULAR CONCERN BECAUSE OF CONSISTENTLY POOR PERFORMANCE. PETROLEUM,

CONFIDENTIAL



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PAGE 01 PEKING 02789 02 OF 04 300407Z  
ACTION EA-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07  
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15  
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C O N F I D E N T I A L SECTION 2 OF 4 PEKING 2789

CINCPAC FOR POLAD

PETROCHEMICALS AND COAL HAVE TOP PRIORITY  
BECAUSE THERE IS BOTH STRONG DOMESTIC DEMAND  
AS WELL AS POTENTIAL FOR LARGE-SCALE EXPORTS  
AND A VARIETY OF PRODUCTS FOR THE CRITICALLY  
IMPORTANT AGRICULTURAL SECTOR ARE ALSO BEING  
IMPORTED - INCLUDING TRACTORS AND LARGE  
IRRIGATION SYSTEMS -- ON A TRIAL BASIS TO TEST  
THEIR USEFULNESS IN RAISING AGRICULTURAL  
PRODUCTION. CHEMICAL FERTILIZERS, INSECTICIDES,  
AND HERBICIDES CONTINUE TO BE IMPORTED IN LARGE  
QUANTITIES.

8. DESPITE THE ACTIVITY OF THE FOREIGN TRADE  
CORPORATIONS, THE NUMBER OF ACTUAL CONTRACTS  
BEING SIGNED FOR EQUIPMENT AND MACHINERY PURCHASES  
IS STILL LIMITED, AND LARGE CONTRACTS  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 PEKING 02789 02 OF 04 300407Z

PARTICULARLY SO. WHOLE PLANT PURCHASES, WHILE  
ENVISIONED TO PLAY AN IMPORTANT ROLE IN THE  
DEVELOPMENT OF THE ECONOMY, ARE NOT LIKELY TO  
RESUME UNTIL WELL INTO 1978. LACK OF APPROVAL



FOR LONG-TERM IMPORT PLANS APPEARS TO BE THE PRIMARY REASON FOR THIS TREND. FOR THE SHORT-TERM, THEREFORE, CHINA'S PURCHASES ARE CONCENTRATED OVERWHELMINGLY ON EQUIPMENT AND MACHINERY FOR THE MODERNIZATION OF EXISTING FACILITIES.

#### IMPLEMENTING THE NEW TRADE POLICIES -- EXPORTS

9. IN ORDER TO PAY FOR ITS EXPANDING IMPORTS, CHINA'S LEADERS HAVE IDENTIFIED THREE AREAS IN WHICH TO CONCENTRATE IN ORDER TO IMPROVE EXPORT PERFORMANCE. THE FIRST IS STRENGTHENING THE FOREIGN TRADE INFRASTRUCTURE BY IMPROVING AND STREAMLINING THE ENTIRE EXPORT ORGANIZATION. THE JULY 29 "PEOPLE'S DAILY" ARTICLE REPORTING THE FOREIGN TRADE CONFERENCE AND LI CHIANG'S "RED FLAG" ARTICLE, AS WELL AS PRIVATE COMMENTS BY PRC OFFICIALS, EMPHASIZE THE NEED FOR BETTER EXPORT PRODUCTION PLANNING, IMPROVED VARIETY AND QUALITY OF PRODUCTS, SPEEDIER DELIVERY TO CUSTOMERS, AND BETTER TRAINING FOR PERSONNEL IN THE FOREIGN TRADE SECTOR. THE MINISTRY OF FOREIGN TRADE HAS NOT ENTIRELY IGNORED THIS CALL, ALTHOUGH THERE HAVE BEEN FEW CONCRETE EXAMPLES OF CHANGE SO FAR. AS ONE EXAMPLE, HOWEVER, THE FOREIGN TRADE INSTITUTE HAS CUT BACK ITS ENROLLMENT FROM 1,400 TO 500 IN ORDER TO EMPHASIZE QUALITY OVER QUANTITY, WHILE ITS CURRICULUM IS BEING EXPANDED

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 PEKING 02789 02 OF 04 300407Z

AND A RIGOROUS EXAMINATION SYSTEM INSTITUTED. IN ADDITION, A SPECIAL TRAINING PROGRAM FOR TEACHERS AT THE INSTITUTE HAS BEGUN IN ORDER TO UPGRADE TEACHING STANDARDS.

10. SECONDLY, CHINA HOPES TO EXPAND EXPORT OF TRADITIONAL PRODUCTS AND COMMODITIES, ALTHOUGH SUPPLY PROBLEMS ARE HOLDING BACK A SIGNIFICANT EXPANSION IN THE SHORT-TERM. THE PRC IS PROMOTING TEXTILES, LIGHT INDUSTRIAL PRODUCTS, AGRICULTURAL PRODUCTS, NATIVE PRODUCTS, (HERBS, ESSENTIAL OILS, ETC.), HANDICRAFTS, AND COMMODITIES SUCH AS CHEMICALS, METALS AND MINERALS. WHILE THE FACTORIES AND COMMUNIES ARE BEING EXHORTED TO INCREASE THE SUPPLY OF QUALITY PRODUCTS, THE FOREIGN TRADE CORPORATIONS ARE SENDING INCREASING NUMBERS OF GROUPS OVERSEAS TO BECOME MORE FAMILIAR WITH TRADITIONAL MARKETS AND TO LOCATE NEW EXPORT POSSIBILITIES. ALSO, PRC



NEGOTIATORS HAVE SHOWN REMARKABLE WILLINGNESS -- BY RECENT PAST STANDARDS -- TO CONSIDER THE INDIVIDUAL NEEDS OF THEIR BUYERS AND TO TAILOR PRODUCTS TO REQUIRED SPECIFICATIONS, IN CONTRAST TO LAST YEAR'S PREVALENT "TAKE-IT-OR-LEAVE-IT" ATTITUDE. LONGER TERM SUPPLY CONTRACTS ARE BEING NEGOTIATED, AND INSPECTION STANDARDS ARE CLAIMED TO BE MORE RIGOROUSLY OBSERVED. THESE ACTIONS ARE ALL DESIGNED TO MAKE CHINA'S PRODUCTS MORE ATTRACTIVE TO FOREIGN BUYERS.

11. CHINA IS ALSO MOVING TO EXPAND PRODUCTION OF NATURAL RESOURCES FOR EXPORT, IN PARTICULAR PETROLEUM AND COAL. FOREIGN SUPPLIERS OF PETROLEUM AND MINING EQUIPMENT ARE FINDING AN UNUSUALLY RECEPTIVE ATTITUDE AMONG FOREIGN TRADE OFFICIALS TO PROPOSALS FOR EQUIPMENT SALES. CONFIDENTIAL

CONFIDENTIAL

PAGE 04 PEKING 02789 02 OF 04 300407Z

THESE NATURAL RESOURCES HOLD THE BEST PROMISE OF PROVIDING THE LARGE QUANTITIES OF FOREIGN EXCHANGE WHICH THE PRC WILL NEED IN THE COMING YEARS. HOWEVER, THIS IS A LONGER-TERM PROSPECT AND ONE WHICH IS DEPENDENT NOT ONLY ON SUFFICIENT EXPORT AVAILABILITIES, BUT ALSO ON SUITABLE FOREIGN MARKETS AT PRICES ACCEPTABLE TO THE PRC AND ITS CUSTOMERS.

CREDIT POLICY

12. THE NEWLY ENUNCIATED TRADE POLICIES CONTINUE TO EXCLUDE DIRECT BORROWING IN THE FORM OF BANK LOANS OR LINES OF CREDIT, BUT OTHER TYPES OF CREDIT ARRANGEMENTS WILL PLAY AN IMPORTANT ROLE IN TRADE FINANCING. LONGER-TERM DEFERRED PAYMENTS -- UP TO TEN YEARS -- MAY BE USED TO FINANCE LARGE PLANT PURCHASES, WHILE THE BANK OF CHINA HAS INDICATED THAT IT WILL BE FLEXIBLE IN USE OF SUCH FORMS OF CREDIT AS ACCEPTANCE OF BANK DEPOSITS. JOINT VENTURES WITH FOREIGN COMPANIES (SUCH AS CO-PRODUCTION ARRANGEMENTS FOR

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PAGE 01 PEKING 02789 03 OF 04 300417Z  
ACTION EA-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07  
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15  
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C O N F I D E N T I A L SECTION 3 OF 4 PEKING 2789

CINCPAC FOR POLAD

OIL EXPLORATION) OR FOREIGN INVESTMENT IN THE  
PRC WILL NOT BE PERMITTED FOR THE FORESEEABLE  
FUTURE.

TRADE PROSPECTS

13. CHINA'S TRADE PICTURE FOR 1977 LOOKS VERY  
SIMILAR TO THAT OF 1976. EXPORTS TO NON-COMMUNIST  
COUNTRIES SHOULD BE UP BETWEEN 5-10 PERCENT FROM  
1976 EXPORTS OF \$6.0 BILLION WITH NO MAJOR CHANGE  
IN THE COMPOSITION OF EXPORTS. EXPORTS TO JAPAN  
AND HONG KONG -- WHICH TRADITIONALLY AMOUNT TO  
ABOUT 40 PERCENT OF CHINA'S TOTAL EXPORTS -- ARE  
UP 13 AND 10 PERCENT RESPECTIVELY FOR THE FIRST  
NINE MONTHS OF THE YEAR. THESE INCREASES ARE  
OFFSET BY DECLINING SALES TO EC COUNTRIES, WHICH  
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PAGE 02 PEKING 02789 03 OF 04 300417Z

FOR THE FIRST 6-9 MONTHS OF 1977 ARE ABOUT 5 PERCENT  
BELOW 1976. APPROXIMATELY 60 PERCENT OF CHINA'S  
EXPORTS TO NON-COMMUNIST COUNTRIES GO TO JAPAN,  
HONG KONG AND THE EC.

14. TOTAL IMPORTS FROM NON-COMMUNIST COUNTRIES  
ARE LIKELY TO BE CLOSE TO LAST YEAR'S LEVEL OF  
\$4.9 BILLIONBN OR POSSIBLY DOWN SOMEWHAT, DEPENDING



ON DELIVERY SCHEDULES OF RECENTLY PURCHASED PRODUCTS AND COMMODITIES. THE SECOND HALF OF 1977 HAS SEEN A RECOVERY IN PRC IMPORTS FROM THE DEPRESSED LEVELS OF THE LAST YEAR, SO THAT SECOND HALF IMPORTS WILL EXCEED THOSE OF THE SAME PERIOD LAST YEAR. IMPORTS FROM JAPAN FOR THE FIRST NINE MONTHS ARE AT VIRTUALLY THE SAME LEVEL AS THE SAME PERIOD IN 1976, BUT IMPORTS FROM EC COUNTRIES FOR THE FIRST SIX MONTHS OF 1977 HAVE BEEN SLASHED BY HALF FROM THE SAME PERIOD THE PREVIOUS YEAR. HOWEVER, THIS YEAR'S SUBSTANTIALLY GREATER PURCHASES OF AGRICULTURAL PRODUCTS -- ABOUT \$600 MILLION MORE THIS YEAR-- WILL HELP TO KEEP TOTAL IMPORTS CLOSE TO LAST YEAR. MAJOR AGRICULTURAL IMPORTS ARE MORE THAN SEVEN MILLION TONS OF WHEAT (\$700 MILLION), 1.3 MILLION TONS OF SUGAR (\$200 MILLION), 390,000 TONS OF SOYBEANS AND 150,000 TONS OF SOYBEAN OIL (\$165 MILLION), AND 700,000 BALES OF COTTON (\$168 MILLION). REASONS FOR THE HEAVY OUTLAY INCLUDE THE REBUILDING OF STOCKS DRAWN DOWN IN 1976, FAVORABLE PRICES OF WHEAT, SOME SHORTFALLS IN THE EARLY WHEAT HARVEST, AND A DESIRE TO IMPROVE SOMEWHAT THE SUPPLY OF

CONFIDENTIAL

PAGE 03 PEKING 02789 03 OF 04 300417Z

AGRICULTURAL COMMODITIES SUCH AS OIL AND OTHER SOY PRODUCTS TO THE DOMESTIC MARKET.

15. CHINA WILL HAVE ANOTHER TRADE SURPLUS IN 1977, SUBSTANTIALLY IN EXCESS OF THAT FOR 1976. WE PROJECT THAT THE SURPLUS WITH NON-COMMUNIST COUNTRIES WILL BE OVER \$1.5 BILLION AND POSSIBLY CLOSE TO \$2 BILLION. THE OUTLOOK FOR 1978 IS FOR CONTINUALLY EXPANDING LEVELS OF TRADE, WITH INCREASES FOR BOTH EXPORTS AND IMPORTS. THE RATE OF INCREASE OF IMPORTS WILL EXCEED CONSIDERABLY THE RATE FOR EXPORTS, THUS CUTTING SHARPLY THIS YEAR'S HEFTY SURPLUS.

16. TRADE PROSPECTS BEYOND NEXT YEAR DEPENDENT ON ON A NUMBER OF VARIABLES. MOST IMPORTANT WILL BE CHINA'S EXPORT PERFORMANCE. AS A FIRST PRIORITY, THE PRC'S ECONOMIC MANAGERS NEED SUFFICIENT DOMESTIC PRODUCTION TO GUARANTEE QUANTITY AND QUALITY OF EXPORT PRODUCTS. THEY WILL FURTHER NEED TO MAKE SUBSTANTIAL PROGRESS IN THE THREE AREAS OUTLINED ABOVE: IMPROVING AND REFORMING THE FOREIGN TRADE BUREAUCRACY, EXPANDING OLD MARKETS



AND FINDING NEW ONES, AND EXPORTING INCREASINGLY  
LARGE QUANTITIES OF PETROLEUM COAL AND OTHER  
NATURAL RESOURCES. ACCOMPLISHING THESE GOALS WILL  
BE A DIFFICULT AND LONG-TERM TASK. POLITICAL AND  
ECONOMIC PROBLEMS AFFECTING DOMESTIC PRODUCTION ARE  
NOT SUSCEPTIBLE TO EASY SOLUTIONS, AND CHINA'S BASIC  
PROBLEMS IN INCREASING EXPORTS ARE REAL AND  
DIFFICULT. IMPROVING THE FOREIGN TRADE BUREAUCRACY  
IS A MATTER OF CHANGING INGRAINED ATTITUDES  
AND BUREAUCRATIC PRACTICES. WE HAVE SEEN  
FEW REAL CHANGES SO FAR AND DO NOT EXPECT THAT  
THE NEW POLICIES AND DIRECTIVES -- EVEN IF  
CONSISTENTLY IMPLEMENTED -- WILL PRODUCE MORE  
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PAGE 04 PEKING 02789 03 OF 04 300417Z

THAN MARGINAL RESULTS FOR AT LEAST A YEAR OR MORE.

17. NEITHER WILL IT BE EASY FOR CHINA TO  
SIGNIFICANTLY EXPAND THE EXPORT OF PETROLEUM  
AND COAL, AN IMPORTANT TASK IF CHINA IS TO EARN  
THE FOREIGN EXCHANGE IT NEEDS FOR ITS IMPORT  
PROGRAM. WHILE PROSPECTS APPEAR REASONABLY  
GOOD FOR THE MEDIUM TERM, THE ACTUAL AMOUNTS  
SOLD IN THE NEXT SEVERAL YEARS DEPEND ON  
SEVERAL UNKNOWNNS. RESERVES OF BOTH PETROLEUM  
AND COAL ARE LARGE, BUT THE ULTIMATE SIZE OF  
ECONOMICALLY RECOVERABLE DEPOSITS IS STILL UNCLEAR.  
RAPIDLY EXPANDING DOMESTIC NEEDS WILL CERTAINLY  
ABSORB A LARGE PERCENTAGE OF FUTURE PRODUCTION  
INCREASES, THUS DECREASING THE AMOUNTS  
AVAILBLE FOR EXPORT. FINDING SUITABLE MARKETS  
IS ALSO NOT AN EASY TASK. THE PRC APPEARS TO  
HAVE DECIDED THAT JAPAN IS ITS BEST POTENTIAL  
CUSTOMER, THUS EXPLAINING CHINA'S PARTICULAR  
INTEREST OF RECENT MONTHS IN CONCLUDING A LONG-  
TERM ECONOMIC AGREEMENT WITH JAPAN. PRC PRICING  
DECISIONS, PARTICULARLY FOR PETROLEUM, WILL HAVE

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PAGE 01 PEKING 02789 04 OF 04 300440Z



ACTION EA-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07  
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15  
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C O N F I D E N T I A L SECTION 4 OF 4 PEKING 2789

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AN IMPORTANT BEARING ON THE SIZE OF THE MARKET.  
JAPAN HAS BEEN PRESSING FOR PRICES BELOW  
OPEC LEVELS IN ORDER TO COMPENSATE FOR THE HIGH  
COST OF HANDLING AND REFINING CHINESE CRUDE.

18. THE INTERNATIONAL ECONOMIC SITUATION WILL  
ALSO HAVE AN IMPORTANT BEARING ON CHINA'S  
EXPORT PERFORMANCE. STRONG GROWTH OF THE  
ECONOMIES OF THE WESTERN NATIONS WOULD PROVIDE  
LARGER MARKETS FOR PRC PRODUCTS, WHEREAS  
SIGNIFICANT DOWNTURNS IN THE WESTERN COUNTRIES  
WOULD LEAVE CHINA LITTLE HOPE OF INCREASING  
ITS EXPORTS TO DESIRED LEVELS. LOW JAPANESE  
TEXTILE PURCHASES THIS YEAR OFFER A CURRENT EXAMPLE.  
ANOTHER CLOUD ON THE HORIZON IS THE POSSIBLE  
IMPOSITION OF ADDITIONAL TEXTILE QUOTAS IN CANADA,  
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PAGE 02 PEKING 02789 04 OF 04 300440Z

THE EEC AND THE US WHICH WOULD THREATEN ONE OF THE  
PRC'S MOST IMPORTANT EXPORTS.

19. HOW WELL CHINA DOES IN ITS EXPORTS WILL  
DETERMINE THE SIZE OF ITS CONTINUING IMPORT PROGRAM.  
FOR THE COMING YEAR, THE PRC SHOULD HAVE SUFFICIENT  
FOREIGN EXCHANGE RESERVES TO FINANCE A LARGER  
IMPORT PROGRAM, GIVEN THE SIZABLE TRADE SURPLUSES  
OF 1976 AND 1977. FOR THE LONG-TERM, PROSPECTS  
FOR EXPORT EARNINGS ARE LESS CLEAR. CHINA'S ECONOMIC  
PLANNERS, GIVEN PRESENT CONDITIONS, ARE LIKELY TO



MAINTAIN THEIR CONSERVATIVE APPROACH TO ECONOMIC AND FINANCIAL MATTERS, LEADING THEM TO KEEP A ROUGH BALANCE IN THE TRADE ACCOUNT. IN THEIR VIEW, ONLY INCREASED EXPORTS WILL ALLOW INCREASED IMPORTS. CONVERSELY, IMPORTS ARE LIKELY TO BE CUT BACK IF THEY THREATEN TO OUTSTRIP CHINA'S ABILITY TO FINANCE THEM THROUGH CURRENT OR RELATIVELY SURE FUTURE EXPORTS. WE DO NOT SEE THE PRC ACCEPTING LARGE-SCALE CREDITS FROM ANY SOURCE.

20. THE PRC'S IMPORT NEEDS ARE POTENTIALLY VERY LARGE, AND WE EXPECT TO SEE CONTINUING STRONG INTEREST IN PURCHASES OF ADVANCED EQUIPMENT, MACHINERY, AND TECHNOLOGY FROM THE WESTERN NATIONS. MANY OF THESE IMPORTS WILL HAVE A CRITICAL BEARING ON THE MODERNIZATION PLANS OF CERTAIN SECTORS OF THE ECONOMY. AGRICULTURAL IMPORTS WILL ALSO CONTINUE, WITH THE LEVEL FLUCTUATING IN RESPONSE TO THE SIZE OF CHINA'S HARVESTS AND PRICES ABROAD.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 PEKING 02789 04 OF 04 300440Z

US-CHINA TRADE

21. AS WITH CHINA'S OVERALL TRADE IN 1977, US-CHINA TRADE FOR THE YEAR IN BOTH QUANTITY AND COMPOSITION WILL REMAIN ROUGHLY SIMILAR TO 1976. PRC EXPORTS ARE LIKELY TO INCREASE BETWEEN FIVE AND TEN PERCENT TO \$210-220 MILLION WITH ALL OF THE INCREASE IN TRADITIONAL CATEGORIES. IMPORTS WILL BE ROUGHLY EQUAL TO 1976 IMPORTS OF \$135 MILLION ALTHOUGH THAT FIGURE COULD GO SUBSTANTIALLY HIGHER IF LARGE QUANTITIES OF RECENTLY PURCHASED POLYESTER STAPLE AND SOYBEAN OIL ARE SHIPPED THIS YEAR. TOTAL TRADE FOR 1978 SHOULD INCREASE OVER 1977, WITH PRC IMPORTS INCREASING MORE RAPIDLY THAN EXPORTS. IMPORTS WILL MOST LIKELY AT LEAST EQUAL EXPORTS AND COULD GO SUBSTANTIALLY HIGHER IF THE PRC PURCHASES LARGE QUANTITIES OF AGRICULTURAL PRODUCTS.

22. AS CHINA'S TOTAL TRADE EXPANDS, IT IS LIKELY THAT US BUSINESS WILL SHARE IN THE INCREASE. AMERICAN COMPANIES OFFER A VARIETY OF ADVANCED, SPECIALIZED EQUIPMENT AND TECHNOLOGY WHICH SHOULD BE OF IMPORTANCE TO CHINA IN ITS DRIVE TO REALIZE THE FOUR MODERNIZATIONS. HOWEVER, PRC OFFICIALS DO NOT HESITATE TO SAY THAT THERE WILL BE POLITICAL



LIMITS TO TRADE AS LONG AS US-CHINA RELATIONS  
REMAIN AS THEY ARE. VICE PREMIER TENG HSIAO-PING  
MADE THE CLEAREST STATEMENT WE HAVE HEARD ON THIS  
SUBJECT ON OCTOBER 23, 1977, TO THE BOARD DELEGATION  
OF THE NATIONAL COMMITTEE FOR US-CHINA RELATIONS:  
"IF (OTHER ) COUNTRIES HAVE THE SAME THING THAT THE  
US HAS AND WE WANT IT, WE WILL IMPORT FROM THOSE  
COUNTRIES WITH WHOM WE HAVE NORMAL DIPLOMATIC  
RELATIONS, EVEN IF IT COSTS MORE". WE HAVE  
NOTED SOME RECENT EXCEPTIONS, HOWEVER, AND  
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PAGE 04 PEKING 02789 04 OF 04 300440Z

THE PRC WILL NOT LET POLITICS STAND IN THE WAY  
OF A PURCHASE OF COMMODITIES IT REALLY NEEDS,  
OR EVEN OF A GOOD BUY.

23. ALTHOUGH THE PRC WILL NOT HESITATE TO BUY  
ADVANCED US EQUIPMENT AND TECHNOLOGY OR  
AGRICULTURAL PRODUCTS WHICH IT CANNOT OBTAIN  
ELSEWHERE, NEVERTHELESS WE BELIEVE THAT THE US  
WILL REMAIN A RESIDUAL SUPPLIER OF CHINA'S NEEDS  
EXCEPT IN CERTAIN SPECIALIZED GOODS SUCH AS OIL-  
FIELD EQUIPMENT. DESPITE THE PRESENT OPTIMISM  
OF SOME US COMPANIES ABOUT FUTURE TRADE PROSPECTS,  
WE BELIEVE POLITICAL CONSIDERATIONS WILL CONTINUE  
TO BE IMPORTANT TO THE PRC AND THAT THE TOTAL  
LEVEL OF US-CHINA TRADE, GIVEN THE PRESENT STATE OF  
RELATIONS, WILL REMAIN RELATIVELY MODEST AND  
INCREASE ONLY GRADUALLY. EVEN AFTER  
NORMALIZATION, WE DO NOT EXPECT A RAPID INCREASE  
IN TRADE, ALTHOUGH WE EXPECT SOME IMPROVEMENT  
IN THE RELATIVE STANDING OF THE US.

24. THE PROSPECT IS FOR A STEADY BUT GRADUAL  
EXPANSION OF CHINA'S FOREIGN TRADE IN THE NEXT  
SEVERAL YEARS, BUT WITH FOREIGN TRADE CONTINUING  
TO PLAY ONLY A LIMITED, THOUGH EXTREMELY USEFUL,  
ROLE IN CHINA'S OVERALL ECONOMY. IN QUANTITATIVE  
TERMS, TRADE WILL REMAIN RELATIVELY SMALL,  
ALTHOUGH MANY IMPORTS WILL HAVE MAJOR SIGNIFICANCE  
FOR CERTAIN SECTORS. ADVANCED TECHNOLOGY,  
EQUIPMENT, AND MACHINERY FROM ABROAD WILL SPEED  
UP CONSIDERABLY WHAT WOULD OTHERWISE HAVE BEEN  
A SLOW PACE OF DEVELOPMENT. AGRICULTURAL  
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PAGE 05 PEKING 02789 04 OF 04 300440Z



IMPORTS WILL MAKE UP REGIONAL SHORTAGES AND RELIEVE  
THE ALREADY OVER-BURDENED TRANSPORTATION SYSTEM  
OF THE NEED TO CARRY LARGE QUANTITIES OF AGRICULTURAL  
COMMODITIES FROM INLAND AREAS. WHILE  
CHINA'S ECONOMY FOR THE FORESEEABLE FUTURE WILL  
REMAIN BASICALLY SELF-RELIANT AND INWARDLY FOCUSED,  
PRC LEADERS HAVE SET CHINA ON A PATH WICH WILL  
PERMIT FOREIGN TRADE TO PLAY AN INCREASINGLY  
IMPORTANT ROLE IN THE DRIVE TO REACH THE GOALS OF  
THE FOUR MODERNIZATIONS.  
WOODCOCK

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NNN



## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC GROWTH, INTELLIGENCE ASSESSMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 29-Nov-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977PEKING02789  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770443-0274  
**Format:** TEL  
**From:** PEKING  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1977/newtext/t1977118/aaaaagnu.tel  
**Line Count:** 668  
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**Message ID:** 401bb71e-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Reference:** 77 PEKING 2635, 77 PEKING 2788  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 30-Dec-2004 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
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**Review Release Event:** n/a  
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**SAS ID:** 660548  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PRC FOREIGN TRADE: AN ASSESSMENT OF RECENT POLICIES, THEIR IMPLEMENTATION AND PROSPECTS FOR THE FUTURE  
**TAGS:** ETRD, EEWT, ECON, CH  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/401bb71e-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
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**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009